# SYNOPSIS

# "A STUDY ON THE BILATERAL TRADE RELATION OF INDIA WITH CHINA AND USA SINCE 1991"

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## Title of the Study

## "A STUDY ON THE BILATERAL TRADE RELATION OF INDIA WITH CHINA AND USA SINCE 1991"

**Introduction:**

The term "Trade" commonly known as the exchange of goods and services, it means to buy and sell goods and services for money or money's worth. Foreign trade or international trade is the extension of domestic trade or internal trade. Domestic trade means, trade into the boundary of a country or between the two regions of a country, while international trade means trade between two or more than two countries of the world.

Today, no country in the world is self-sufficient in the production of all goods and services within the boundary of a country. The reason is that differences in the availability of natural resources, skills of the people, specialized machinery etc. so, foreign trade provides an opportunities to the countries to export those goods whose production makes relatively heavy use of resources that are locally abundant, while by importing those goods whose production makes heavy use of resources that are locally scared. Trade is one of the powerful forces of economic integration. Faster economic growth can be achieved only through good international trade. Foreign trade plays an important role in the economic development of the country. Economic development means a sustained increased in GDP of the country. The role of international trade in the economic development of the country is considerable. Many classical and non-classical economists termed foreign trade as an 'engine of growth', because it creates employment, increase the investment, reduce the poverty, and improve the living standard of the people. It was worked as an 'engine of growth' in the past, the countries like Great Britain and Japan in the $19^{th}$ and $20^{th}$ century respectively, whose economies grow faster

due to foreign trade. In his theories, Adam Smith (1776), David Ricardo (1817), Heckscher - Ohline (1919) etc. explained that foreign trade promote the economic growth and development of the country.

Trade and commerce have been the backbone of the Indian economy right from ancient times. The Indian trade history reflects that regardless of frequent political upheavals from the $12^{th}$ to $18^{th}$ centuries, the country was still prosperous. In those days the exports of India were far exceeded than imports. History of Indian trade also shows that the very popular items of the Indian exports were spices, hardwood furniture, tea, embroideries with inlay work etc. India was also well known for furniture expensive carving, carpets, textiles, pearls, ornamental work, precious stones, carpet weaving etc. Prior to independence, during the British ruled, India was an exporter of mainly foodstuff items and raw materials to the industrialized countries especially to England and an Importer of manufactured goods. Due to this, India was depends on foreign countries for manufacture goods.

The Indian trade scenario evolved gradually after country gained the independence in 1947. From 1950s to 1980s the country followed protectionism policies, due to this, Government of India imposed some tariff and non-tariff barriers on imports, such as Quota, Licensing, banning, import duties etc also country charged heavy duties on foreign companies conducting trade with India. By following of this type protectionism policies,country protects the few domestic industries against the competition with foreign industries. During this period, country framed the trade policies entitled, import substitution oriented trade policy, import substitution cum export oriented trade policy etc. This was called as a policy of "Export Pessimism" which means that foreign trade did not consider as an 'engine of growth' for the Indian economy.

Since, the implementation of the New Economic Policy of 1991, government of India framed the trade policies under the title of free trade, and reduced the protective measure that's why the trade situation of the country improved and it

attracted the global markets attention. Many studies show that this new Economic policy of Liberalization, Privatization and Globalization (LPG), did the positive impact on the Indian economy. Studies show that,the Foreign Direct Investment (FDI), National income, Per Capita Income (PCI), andrate of employment of the country increased due to thisnew economic policy.With these, there has been occurred a remarkable changes in thecomposition of export and import of the country and the value of India's export and import gradually increased due to implementation of free trade policy and removing the trade barriers.

Considering, India has 2nd largest population country in the world, and it is an opportunity to as a market for other countries. There are different commodities and countries involved in the trade, so, it is important to investigate the crucial points of the trends of export, import, and composition of India's foreign trade with these countries. Simultaneously, it is also important to study the challenges and opportunity in trade with these countries. Present study focuses on the bilateral trade relation of India with China and USA.

China and USA is the largest trade partner of India from long time. In 2017-18, the share of these two countries in the total export of India counted more than20 percent whereas in the total import of India both counted more than 21 percent. China is the largest import partner of India counted 16.41 percent in the total import of the country while, USA is the largest export partner of India counted 15.77 per cent in the total export of the country, in 2017-18. Beside this, China and USA is the largest trade deficit and surplus nations of the country.This study will focus important aspects of bilateral trade relation of India with China and USA since 1991.

In the present study, researcher purposely going to analysis the comparativestudy of the economies of India, China and USA, the participation of these economies in world trade, Commodity composition of India's foreign trade with the nations under study. Present study also examines what are the challenges

and opportunities India have with these two nations. Finally, study will suggest some policy measure to improve the trade relations of India with both countries.

**Indian Economy:**

India, a south Asian nation, a developing country and mixed economy, has emerged as fastest growing economy in the world. It is the second most populous country after China shares 17.5 percent of the total world's population and 2.4 per cent of the world surface area. Today, Indian economy stands at an over 2 trillion economy. According to International Monetary fund's (IMF) World Economic Outlook (October-2018), the nominal GDP (at current price) India is now the 7$^{th}$ largest economy of the world, the GDP of the country is US $ 2690 billion, which contributes 3.17 per cent share of total world's GDP. After China and Japan, India is at 3$^{rd}$ position among the Asian countries. Country shares around 9 percent GDP (nominal) in the total Asia's GDP. On the basis of Purchasing power Parity (PPP) Indian economy stands at US$ 10401 billion, having the 3$^{rd}$ largest economy of the world after USA and China. The report of Ministry of Statistics and Programme Implementation shows that services sector is the largest sector of the Indian Economy. In 2018-19, this sector accounts, 54.40 per cent Gross Value Added (GVA) for the economy, whereas, the Industry and Primary (Agriculture) sector accounts, 29.73 per cent and 15.87 per cent respectively.

Since the gaining of economic liberalization, India has been actively participating in international trade and today is the major trading nation in the world. According to WTO report, in 2017, the value of Indian merchandise Export and Import counted US$ 298376 million and US$ 447241 million respectively and the share of India's Export and Import in world trade 1.68 per cent and 2.48 per cent respectively. In the same year, the Rank of India in world merchandise export and Import 20 and 11 respectively. Currently, USA, UAE, China, Hong Kong and Singapore are the top five export partners and China, Saudi Arabia, Iraq, Switzerland and Iran are the top five import partners of India. In the year of 2017-

18, Engineering Goods, Gems and Jewellery, Petroleum products, Drugs and Pharmaceuticals and textiles are the top five exports commodities of the country whereas, Petroleum and crude products, Electronic Goods, Electrical and non-electrical machinery, Pearls, precious & Semi-precious stones and Gold are the top five import commodities of India.

**Chinese Economy:**

China is a north-east Asian country, is a largest economy on the basis of population and purchasing power parity (PPP) in the world, and in terms of nominal GDP, it is the second largest economy in the world after USA. In her World Economic Outlook report 2018, according to IMF, the value of GDP of China counted, US$ 14172.200 billion, which is 16.1 per cent share in the world GDP. The service sector is the major contributor in the GDP of China which counted, 52.2 per cent share whereas Industry and Agriculture sector stood on second and third rank and counted 40.7 per cent and 7.2 per cent respectively. Over the last decade, the agriculture sector of the country increasingly more depend on the import, particularly in oil bearing crops.

According to WTO, in the year of 2017, the value of merchandise export of China stood, US$ 2263329 million, whereas the value of merchandise import counted, US$ 1841889 million, and the share of China in world merchandise export and import counted, 12.77 per cent and 10.22 per cent respectively. China stood in the rank of 1 and 2 in world merchandise export and import respectively. In 2017, the major exporting items of the China are the mechanical and electrical products, high tech products, cloths, textiles, footwear, furniture, plastic products etc. whereas, cotton, tea, rice, potatoes and soybean are the top importing items of the country. China's major export partners are, USA, Hong Kong, Japan, Korea, Vietnam etc. whereas, countries like Korea, Japan, USA, Germany are the largest import partner of China.

**USA Economy:**

According to International Monetary Fund (IMF) World Economic Outlook, in the year of 2019, on the basis of nominal GDP, USA is the largest economy in the world, counted, US$ 21,482.410 billion which contribute 24.4 per cent share in the world. In terms of purchasing power parity (PPP) it stood on the second rank after China. The tertiary or service sector compiled highest GDP for this country counted, 80.2 per cent, and the Industry and Primary or Agriculture sector secured second and third rank and contribute 18.9 per cent and 0.9 per cent share in the total GDP of the country.

According to WTO report, the value of USA's merchandise export and import in 2017, counted, US$ 1546 725 million and US$ 2409495 million respectively, counted, 8.72 per cent and 13.37 per cent share in the world merchandise export and import respectively, and USA stood 2 and 1 rank in world merchandise export and import respectively. Countries like, Canada, Mexico, Japan, China and UK are the major export partner of USA. Whereas, China, Mexico, Canada, Japan, and Germany are the top importing partner of the country's in 2017. The largest exporting items of US are machinery including computers, mineral fuels including oil, electrical machinery equipment, aircraft and spacecraft and vehicles. The items such as, machinery including computers, electrical machinery equipment, vehicles, mineral fuels including oil and pharmaceuticals are the top importing items of the country.

**Importance of the Study:**

The possible outcome of the present study will be significance to number of policy makers, academician, researcher, importer, exporter, industries, educational institutions and government department in their different points of view. This study

will provide a sufficient background analysis and interpretation of India's trade relation with China and USA since 1991.

**Objectives of the Study:**

Following are the objectives of the present study

1) To take a comparative picture of the economy's of India, China and USA in world economy
2) To assess the trends of India, China and USA's Foreign Trade in world Trade
3) To examine the trends and performance of India's export, import and Balance of Trade (BOT) with Chinese and USA economies
4) To analyse the composition of India's Foreign trade with the nations under study
5) To find out the challenges and opportunities in trade for India with the nations under study
6) To suggest some policy measure to improve India's trade relations with two nations by reducing trade deficit and increasing trade surplus

**Hypothesis of the Study:**

Following are the hypotheses of the present study

1) The share of China and USA's foreign trade in world trade is significant whereas, the share of India's foreign trade in world trade is not significant.
2) China and USA are the largest import and export partner of India respectively
3) There has been occurred a remarkable changes in the composition of India's foreign trade with China and USA since 1991
4) India's Balance of Trade imbalance (BOT) with the nations under study.
5) The BOT of India with China is in deficit; it means since 1991, India's import from China is more than export.
6) Every year India's export to USA is greater than import since 1991. In other words, BOT of India with USA in surplus.

**Research Methodology:**

Present study purely based on the secondary source of data collection. The data will be compiled from various and international and national institutions such asInternational Monetary Fund (IMF), World Bank, World Trade Organization (WTO), World Trade map, UN comtrade database, UNTACD database Reserve Bank of India (RBI), Ministry of Commerce and Industry, etc. Apart from this, data will be collected from various Books, Periodicals, magazines, Ph.D. thesis, also from various research Journals, articles and papers.

For analyzing the data, in the present study, the simple statistical tools such as, average, Percentage, ratios, Table and Graph will be used. The various indices such as Revealed Comparative Advantage (RAC), Trade Intensity Index, Trade similarity and complementary index, Export diversification Index, Trade Openness Index, etc. will also be used in the present study to measure the better trade relation between India-China and India-USA.

The twenty nineyears' time series data (i.e. from 1991-92 to 2020-21) selected for the present study.

**Scope of the Study:**

Trade relation of India with China and USA is a very wide subject which involves number of dimension and aspects, which will not possible to cover all these aspects in the present study. So, in the present study, researcher examines some of the aspects such as, trends of Indian export, import and Balance of Trade(BOT)with China and USA, commodity composition of Indian exports and imports with these nations, challenges and opportunity India have with these two nations related to trade and finally, study suggest some policy measure to improve the country's trade relation with China and USA.

**Chapter Scheme**

The chapter scheme for the present study as follows,

1) Introduction
2) Review of Literature
3) Overview and the comparative study of the economies of India, China and USA
4) Trends of foreign trade of India, China and USA in world trade
5) Bilateral Trade between India and China
6) Bilateral Trade between India and USA
7) Findings and Suggestions

**Limitation of the study:**

Present study has the following limitations,

1) Study purely based on the secondary source of data collection not include primary data
2) Study mainly focuses on bilateral trade relation of India with two nations i.e. China and USA. In other words, study only focus the trade relation of India with China and USA.
3) Only twenty nine years data (i.e. from 1991-92 to 2020-21) selected for the present study .
4) Study only focuses on the merchandise trade of the countries and not include trade in services between the nations under study
5) In commodity composition, mainly focuses on major commodities of export and import

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Research Guide

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